

EXECUTIVE SECRETARIAT**Routing Slip**

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		X		
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4	DD/NFA				
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6	DD/O		X		
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9	GC				
10	IG				
11	Compt				
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13	D/Pers				
14	D/OPP				
15	C/EAS/OPP				
16	C/IAS/OPP				
17	AO/DCI				
18	EXDIR		X		
19	DDI		X		
20	SA/IA		X		
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		SUSPENSE _____ Date _____			

Remarks:


 Executive Secretary

20 Jan 82

Date

3637 (10-81)

82-0162

THE WHITE HOUSE

7431

WASHINGTON

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January 20, 1982

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
COUNSELLOR TO THE PRESIDENT
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
THE DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES REPRESENTATIVE TO THE UNITED NATIONS
CHIEF OF STAFF TO THE PRESIDENT
DEPUTY CHIEF OF STAFF TO THE PRESIDENT
CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: Report of the Economic Working Group

Attached at Tab A is a copy of the report of the Economic Working Group on the financial cost of measures contemplated against the Soviet Union.

FOR THE PRESIDENT:

W. P. Clark
William P. Clark

Attachments

Tab A	Report of the Working Group
Tab 1	State Paper
Tab 2	Treasury Paper
Tab 3	Commerce Paper
Tab 4	USTR Paper

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Review January 19, 1988

B-233

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Contemplated Measure

Approved For Release 2011/05/19 : CIA-RDP83M00914R000500060015-9 to

to USG**US Economy****Remarks****Phase I**

1. Expel all Soviet commercial representatives, close their offices and close our commercial offices in the USSR.

Negligible

Impossible to estimate, but small

If the Soviets retaliate by expelling US private commercial representatives, a loss of \$10-15 million investment and possible loss of some export sales.

2. Reduce Soviet diplomatic representation in the US. Mandate that the Soviets can have no more diplomats in Washington than we do in Moscow. Reduce levels in both places.

None

None

Actually a small saving.

3. Cancel all cultural, scientific and academic agreements with the Soviet Union.

None

Negligible

A saving of some \$1 million - \$1.7 million.

4. Suspend negotiations on a new Maritime Agreement and impose strict port access requirements when the present agreement expires on December 31.

None

Negligible

5. Escalate radio broadcasting and anti-jamming activities toward the Soviet Union.

\$1 million

None

6. Seek condemnation of the Soviet Union in international organizations, e.g., UN, ILO, CSCE.

None

None

7. Ban Soviet fishing in US waters.

None

\$4 million involving a US/Soviet joint venture.

There is no fishing now as such.

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Contemplated Measure

Estimated Cost to USG

Estimated Cost to US Economy

Remarks

8. Halt export of all oil and gas equipment and technology to the Soviet Union.

None

\$210 million/year for at least 2 years

9. Propose an early meeting between Secretary Haig and Mr. Gromyko. At present it is scheduled for January 26-28.

None

None

10. Cancel Haig-Gromyko meeting scheduled for January 26-28.

None

None

11. Do not issue Caterpillar pipelayer license.

None

\$90 million year one
\$200 million future years
Loss of 1600 jobs

12. Discourage tourist travel to the USSR.

None

Negligible

13. Pressure US banks to suspend all credits to the USSR. Suspend negotiations on economic matters.

None

None

The funds would be lent elsewhere, but there would be market distortion costs and interference with the regulatory system.

14. Delay or refuse to set new dates for talks on the "Long-Term Grain Agreement."

Impossible to estimate

Impossible to estimate

Would depend on eventual outcome

15. The four major grain suppliers to the USSR are the US, Canada, Australia and Argentina. Diplomatic action should be initiated to determine if we can get an agreement on a world-wide grain embargo.

None

None

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Contemplated Measure

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to USG

US Economy

Remarks

16. Begin talks immediately with our Allies to see if we can get the Siberian Pipeline Project cancelled.

None

Same as (8) if successful, somewhat offset perhaps by sales to other countries for alternative projects.

17. Call for an emergency CSCE meeting on Poland.

None

None

Phase II

1. Suspend Aeroflot service.

None

None which can be definitely foreseen.

Pan Am may lose valuable over-flight rights.

2. Impose a total embargo on all high technology items to the Soviet Union.

None

Approximately \$80 million in 1982.

3. Suspend all validated export licenses to the USSR for electronics, computers and high technology categories, including International Harvester.

None

\$300 million over a 5-year period for International Harvester plus (2) above.
A loss of 300 jobs.

This may bring the bank rescheduling of the International Harvester debt into question.

4. Walk out of CSCE meeting in Madrid after denouncing the Soviets.

None

None

5. Recall Ambassador Hartman.

None

None

6. Discontinue INF talks.

None

None

Small saving.

7. Conduct high-level, high profile consultations with the Chinese.

None

None

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Contemplated Measure

to USG

US Economy

Remarks

Phase III

- | | | | |
|---|---|---|-----------------------|
| 1. Announce we consider the Helsinki Final Act null and void. | None | None | |
| 2. Pull out of the MBFR negotiations. | None | None | Small saving. |
| 3. Impose a total trade embargo on the USSR. | \$6-8 billion in 1982/83 in price support programs. | \$10 billion in 1982/1983 (75% agricultural) below. A loss of 160,000 jobs. | See Notes (1) and (2) |
| 4. Ask Ambassador Dobrynin be recalled to the USSR along with the return of Ambassador Hartman. | None | None | |
| 5. Close US ports to Soviet ships. | None | Negligible | |

Notes

1. To some extent grains are fungible. Thus some of the export sales to the USSR we would lose would presumably be made up by sales to traditional markets of other grain exporting countries to whom the Soviets would turn. It should be noted that the greater the degree of cooperation we get from other grain exporting countries the greater would be our cost in price support programs.

2. Our highest dependency on the USSR for imports is in chromite, palladium and titanium sponge. The disruptions would affect catalytic converters for cars and specialty steel production. Higher cost alternates could be arranged in 3-9 months.

Measures vis-a-vis Poland

It has been suggested that as a carrot we may wish to offer Poland substantial assistance should the Martial Law measures be reversed. Our best estimate is that such a program would cost us at least \$2,420 million through FY 1985 and more likely \$5-6 billion. This on the assumption of a 20% share in program costs (the other 80% to be borne by our allies).

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Attachments

1. State Paper
2. Treasury Paper
3. Commerce Paper
4. USTR Paper

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DEPARTMENT OF STATE

Washington, D.C. 20520

SECRET

December 23, 1981

TO: NSC - Mr. Bailey

Norm -

Here is a quick estimate of costs on some of the items on the list:

-- Ban Soviet fishing: Soviet fishing was banned after Afghanistan and has not been allowed to resume. Soviet factory ships operate in U.S. waters to process U.S.-caught fish in a U.S.-Soviet joint venture based in Bellingham, Washington. Soviet purchases of U.S. fish under this arrangement were \$4 million in 1980. Loss of those sales would be borne by Pacific Coast fishing interests. There would be no cost to the USG. Pacific Coast Congressmen have strongly supported the joint venture, which was exempted from action after Afghanistan. Soviet permits to operate in U.S. waters expire December 31. (The National Marine Fisheries Service (NMFS) has been asked not to renew the permits without further instruction.)

-- Let the Maritime Agreement lapse: The agreement expires December 31. Its expiry would impose no costs on the USG and negligible costs on the U.S. economy.

-- Suspend Aeroflot landing rights: No costs to USG. Pan Am (which dropped service to Moscow in 1978) would probably lose valuable overflight rights. Two U.S. firms (Gen Air and Capitol) that are seeking authority to serve Moscow would see their prospects disappear.

Harry Kopp
State/EB/TDC

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RDS-2 12/23/2001



DEPARTMENT OF STATE

Washington D.C. 20520

December 24, 1981

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TO: NSC - Mr. Bailey

The following is an estimate of dollar costs of items 6 and 7 on the list:

Cancel All Academic, Cultural and Scientific Exchanges

-- Cultural and Academic Exchanges: The only existing cultural exchange is the reciprocal distribution of Amerika Illustrated in the USSR and Soviet Life in the USA. This exchange is greatly to our benefit. We spend \$1.7 million on this exchange. Cancelling would result in a net saving of money, but would involve a distinct loss in USG access to the Soviet population.

The USG puts about \$1.7 million annually into academic exchanges with the USSR. If these were cancelled immediately, the USG might have to spend several hundred thousand dollars to relocate the US students now in the USSR. If the program is allowed to continue until the summer and then lapse, it would cost us nothing in financial terms (we would of course lose a great deal in terms of our knowledge of the USSR).

-- Scientific and Technical Exchanges: Cancelling these agreements would technically place us in violation of our legal obligations since the agreements do not contain provisions for unilateral abrogation.

We could, however, announce suspension of further activities under the agreements without indicating that we were cancelling the agreements themselves.

If we did actually abrogate the agreements, the USG conceivably could stand to lose around \$9 million, which is the value of equipment now in the USSR. Of this sum, \$8 million represents the superconducting magnet used in the magnetohydrodynamics (MHD) project.

Suspension of activities without cancellation of agreements should cost nothing.

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A RDS-2 12/24/2001

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In many cases, we obtain valuable information from these agreements that would be costly -- and in some instances impossible -- to duplicate (NASA, for example, says it would cost us some 100 million dollars to get data on primate experiments the Soviets are conducting and sharing with us.

Escalate Radio Liberty and VOA Activities, and
Increase Anti-Jamming

-- Voice of America: VOA informs us that it would cost approximately \$1 million to expand broadcasting time in Armenian, Georgian, Tartar/Bashkir, Kazakh, and Byelorussian. This expansion could be implemented almost immediately. VOA currently broadcasts 17 hours in Russian and 14 hours in Ukrainian per day; they believe that an increase in broadcasting time in these languages would be of marginal utility.

In order to circumvent jamming, VOA would be able to redirect some transmitters currently providing service to other countries and regions and direct them toward the USSR. This could be done quickly and at no cost.

-- Radio Liberty: The Board for International Broadcasting tell us that there is little that Radio Liberty can do in the short term to increase effective broadcasting to the USSR or to overcome jamming.



Thomas M. T. Niles
State/EUR

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RDS-2 12/24/2001

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CONFIDENTIAL**"MARSHALL PLAN" FOR POLAND****A Cost Analysis****Introduction**

This analysis of the costs of significant economic assistance to Poland follows the convenient pattern of (1) establishing a Base-Line, or minimal, program which would aim to stabilize the Polish economy at more or less its present depressed level, then (2) considering an increment to the base-line program that could put the Polish economy on a path of renewed growth and recovering standards of living. The Base-Line program does no more than cover the hard-currency financial gaps which the Poles themselves have projected as needed to support their economy in a decidedly lackluster condition, at least for the next year or two.

The analysis assumes adequate burdensharing by the Allies. In a total aid package, U.S. shares ranging from 10% to 30% can be justified, depending on the formula used. This analysis uses a figure of 20% as a reasonable compromise between these extremes, regarding which there are inter-agency differences of view.

The analysis focusses on the incremental costs of any new program. Thus, it assumes that debt rescheduling along the lines already agreed to by official creditors for 1981 (90% of principal and interest) will take place in any event (whether by agreement or by Polish default) and therefore represents "sunk" costs independent of any new assistance program. Rescheduling by the private banks (95% of principal only) is handled similarly.

The Base-Line Program

Poland's most recently projected financial gaps for 1981 and 1982 amount to \$0.8 billion and \$3.8 billion, respectively. At least \$350 million of the former figure has to be seen as a potential bail-out of the banks (mostly European) for interest payments due in 1981.

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Declassification on 12/24/87

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After 1982, the gap is expected to decline to about \$2 billion by 1985. Because debt rescheduled in 1981 will start falling due after 1985, Poland's financial gap will increase again in 1986 and beyond, unless there is then a rescheduling of previously rescheduled debt. Leaving the years after 1985 out of consideration, the costs of a Base-Line or minimal assistance program for Poland over the medium term, by calendar year through 1985, can be estimated as follows:

New Money Beyond Costs of Debt Rescheduling		(\$ Millions)				
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
Total Program	800	3,800	3,000	2,500	2,000	12,100
U.S. Share (20%)	160*	760*	600	500	400	2,420

* Likely to be concentrated in FY 1982, for a total of \$920 million.

The Incremental Program

There has been no definitive analysis of what Poland's requirements might be, should the Western allies decide to go beyond the basic balance of payments support envisioned in the Base-Line sort of program outlined above. In its current depressed state, however, the Polish economy has considerable absorptive capacity for (1) inputs to agricultural production, (2) raw materials and intermediate goods for manufacturing, (3) spare parts and equipment to replace capital facilities damaged or run down over the past year, and (4) carefully selected new investment. Thus, an incremental program of \$3 billion to \$5 billion annually through 1985 likely would not be constrained by Poland's absorptive capacity and would stimulate the economy powerfully. Perhaps 10 percent of the total should be allocated to administrative costs, as effective economic management will be essential for a successful program; the Poles have demonstrated in the past that they do not possess such management capability. The U.S. share of the program, at 20%, would be \$600 million to \$1 billion annually.

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Combined Costs

With the Base-Line and Incremental programs combined, costs to the USG, by fiscal years, through 1985, would be as follows:

(\$ Billions)

<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>TOTAL</u>
1.52-1.92	1.2-1.6	1.1-1.5	1.0-1.4	4.82-6.42

Other Key Considerations

- A highly publicized Western program, especially one of the incremental variety, could well induce the Soviets to reduce or cease their support of the Polish economy, which amounts to \$2 billion to \$3 billion annually in terms of real resource transfers. This would leave the West with all its costs and few if any of the expected benefits of Polish economic resurgence; the West would simply be assuming costs previously borne by the USSR.
- Without institutional reform of the Polish economy, by the Poles themselves and with Western managerial and organizational help, any assistance effort by the Allies would be largely wasted. It would simply prop up Polish per capita incomes for a few years, leading to new crises when the program ended. This is, in effect, what happened to Poland in the 1970's, when skyrocketing borrowing provided analogous income transfers from the West.
- All US assistance could and should be tied to U.S. exports, but the Allies are likely to do the same, so that there will be no feedback demand for US exports from Allied assistance.
- Some "bail-out" of private creditors cannot be avoided, especially initially.
- A coordinated Allied program, especially at the incremental level, could well restore the confidence of private lenders and lead to a resumption of private credits to the Poles. This could reduce the need for official assistance. Quantification of the extent of possible new private lending would be sheer guesswork. Confidence will return only over time.

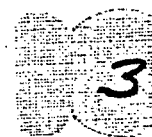
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- Any assistance under either the Base-Line or the Incremental program should be highly concessional. Poland would be hurt rather than helped by new short- or medium-term debt. From a cost analysis perspective, this implies heavy current budget outlays that would not be recouped for many years.
- A resurgence of the Polish economy implies increased exports to the West. Western countries will need to be prepared to maintain open markets for Polish goods, which implies policy-level resistance to the inevitable charges of dumping and market disruption that the US and other governments will face.

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UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
 Washington, D.C. 20230

MEMORANDUM FOR: Dr. Norman Bailey
 Director of Planning
 National Security Council

FROM: Raymond J. Waldmann
 Acting Under Secretary
 for International Trade

SUBJECT: Economic Costs of U.S.S.R. Sanctions

You requested an estimate of the economic cost to the U.S. Government and economy of possible sanctions taken with respect to the U.S.S.R. as a result of the events in Poland. The following presents Commerce's analysis of economic costs; also included are comments on effects on the U.S.S.R. The estimated costs are yearly costs with no accounting for inflation, interest lost, etc. The costs reflect lost sales (exports) by U.S. Industry without taking into account downstream effects.

1. Expulsion of Soviet Commercial Officers in the U.S. and Recalling U.S. Commercial Officers in Moscow.

The direct cost to the U.S. Government is small. Retaliation against 28 U.S. company offices in Moscow--if offices closed down, loss of perhaps \$10-15 million investment, and some administrative costs, plus loss of future business generated by offices. The indirect costs to the U.S. Government are difficult to estimate. The major indirect cost is tax revenues on export sales.

The cost to the U.S. economy is equally difficult to estimate. The commercial offices do generate trade but estimates vary from 1% to 10% of U.S./U.S.S.R. two way trade.

2. Halt Exporting of Oil and Gas Equipment.

The cost to the U.S. Government of halting the export of oil and gas equipment and technology is small (tax revenues on sales).

The cost to the U.S. economy would be approximately \$210 million per year. In 1981 we approved approximately \$90 million with \$120 million still pending. The pending figure includes the Caterpillar license for 200 pipelayers. Another \$80 million worth of oil and gas technology cases were denied in 1981 for the USSR. This \$80 million is not included in the \$210 million since it is unlikely that we would approve technology in the near future.

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The effect of halting shipments to the U.S.S.R. will have a significant short term impact. The U.S. sells the best equipment, which the Soviets prefer. For certain applications--corrosive and high pressure environment--the U.S. has unique capabilities. The Soviets will have some problems to compensate for the losses. Most of the equipment can be purchased outside the U.S. (pipelayers, larger diameter pipe, pumps, etc.).

3. Rescinding International Harvester License.

Cancellation of the IH license will cost \$300 million over a five year period. It will result in a loss of about 300 jobs and affect the financial standing of IH. The technology is available from Klaus in West Germany. Little cost to U.S. Government.

4. Impose Embargo on All High Technology.

Embargo of all high technology will cost the U.S. economy approximately \$80 million in 1982. We approve approximately \$200 million per year in validated licenses but only \$100 million is classified as "high technology." The rest is oil and gas equipment.

The Soviet Union will be affected by this move, especially if supported by our Allies. A multi-lateral embargo would slow down their economy. Most of the equipment can be acquired from non-U.S. sources; multi-lateral cooperation is imperative.

5. Total Embargo of Exports and Imports (1982).

Cost to U.S. Government approximately \$1 billion to \$4 billion because of price supports for agricultural programs.

Cost to U.S. economy is projected at \$3.7 billion in export sales plus \$1 billion to \$2 billion in governmental outlays.

Exports are divided into \$2.5 billion in agricultural commodities and \$1.2 billion in non-agricultural commodities.

The import embargo costs are difficult to estimate since this could result in liabilities due to broken contracts. The U.S. imports approximately \$450 million from the U.S.S.R., mostly in raw materials. Firms requiring these commodities must find alternate suppliers, especially in strategic minerals.

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The top ten U.S. imports from the USSR are:

1980

<u>Commodity</u>	<u>Value (Millions)</u>
Ammonia	95
Gold Bullion	86
Palladium	55
Uranium flourides	35
Nickel	35
Metal coins	18
Palladium bars	12
Naphtha	10
Uranium compounds	9
Platinum bars	7
	453

Our dependency on the U.S.S.R. for the critical minerals whether among top 10 or not was in 1980:

Chromite	28%
Graphite	6%
Nickel	3%
Platinum	1%
Palladium	26%
Titanium	11%

The highest dependency is in chromite, palladium and titanium sponge. U.S. suppliers would have to seek supplies from South Africa, the Phillipines (chromite) to make up for the disruptions at premium prices. The disruptions would affect catalytic converters for cars and specialty steel production, but supplies can be compensated from within 3 to 9 months. The other dependencies are small and can be compensated from within 3 months.

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Impact of Trade Embargo with USSR on U.S. Economy

Background

The balance of trade with USSR is heavily in the U.S. favor -- with exports at least 3-4 times greater than imports consistently over the last four years.

United States exports to the USSR (which are dominated by agricultural products) declined sharply in 1980 due to the sanctions imposed by the Carter Administration following the Soviet invasion of Afghanistan. In 1981, exports rose sharply, mainly as a result of the lifting of the grain embargo. In the absence of USG restraints, it is expected that exports (particularly grains) would expand further, by a large amount in 1982. In the manufacturing sector, exports are concentrated in a few product categories (e.g. tractors, phosphate fertilizer, pressure sensitive tape), and a few U.S. companies (e.g. Occidental, International Harvester, Caterpillar).

The patterns of U.S. exports to the USSR contrasts sharply with those of our major Western allies -- for whom steel and machinery are the major export items. Thus, our allies are a much more important source of manufactures for the USSR and their manufacturing sectors have a much larger stake in the Soviet market.

United States imports from the USSR have been primarily minerals and metals, although in recent years ammonia and refined petroleum products have accounted for a substantially larger share. Imports have dropped significantly in volume in 1980 and 1981 largely due to a decline in gold purchases.

The attached tables provide data on recent U.S. trade with the USSR.

Impact of Total Embargo

The impact of an embargo on trade with the USSR is summarized by sector on the attached chart.

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In total, we estimate that about \$10 billion in export sales would be lost in 1982-83, with an accompanying loss of about 160,000 jobs. The impact on certain companies (e.g. Occidental and International Harvester) would be quite substantial.

Federal budget outlays for existing agricultural programs would increase by at least \$6-8 billion and there would be pressure for additional or enhanced programs. Federal budget outlays and revenues would also be adversely affected by higher levels of unemployment. The Export-Import Bank would probably suffer a \$180 million loss due to default on the Occidental contract.

Over the longer term, an embargo would cause loss of significant potential sales to the Soviet Union and to other countries and would encourage the spread of long term supply agreements in agricultural trade.

The attached paper by USDA describes the effects of an embargo in agriculture in detail.

Attachments

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U.S. EXPORTS TO USSR
(Million dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>First Half</u> <u>1981</u>
<u>Agricultural</u>				
Yellow corn	1,053	1,402	602	387
Unmilled wheat	356	812	336	334
Inedible tallow	19	58	28	40
Soybeans	200	489	45	NA
Shelled almonds	NA	8	17	15
Sugar beets or cane	NA	NA	NA	11
Hops	NA	5	10	10
Subtotal of above (as % of total)	1,628 72%	2,774 77%	1,038 69%	797 75%
<u>Mineral</u>				
Alumina	NA	NA	NA	8
Molybdenum ore	26	41	NA	8
Petroelum coke, calcined	18	14	20	21
<u>Manufactures</u>				
Tracklaying tractors & parts	NA	43	90	58
Other tractor parts	NA	2	10	15
Phosphoric acid	NA	93	17	14
Pressure sensitive tape	37	50	42	13
Parts for oil/gas drilling	28	28	NA	NA
Metal working machines, gear	NA	NA	NA	8
Belting & belts for machines	NA	2	13	8
Subtotal of above (as % of total)	65 3%	218 6%	172 11%	116 11%
Total Exports (above items as % of total)	2,249 77%	3,604 85%	1,510 81%	1,066 89%

U.S. IMPORTS FROM USSR
(Million dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>First Half</u> <u>1981</u>
<u>Agricultural</u>				
Sable furskins	8	9	6	3
Vodka	NA	NA	NA	3
<u>Minerals/Metals</u>				
Gold	286	548	86	18
Nickel	16	29	21	34
Palladium	28	62	54	18
Platinum metals	3	16	6	1
Chrome ore	7	11	4	2
Rhodium	8	9	6	2
Aluminum scrap	30	9	2	2
Metal coins	6	25	18	NA
Subtotal of above	384	709	197	77
(as % of total)	72%	81%	46%	35%
<u>Manufactures</u>				
Ammonia	27	56	95	40
Light fuel oils	NA	NA	NA	50
Napthas	NA	--	5	17
Total Imports	530	873	430	219
(above items as % of total)	79%	89%	70%	87%

SUMMARY OF IMPACT OF USSR TRADE EMBARGO
ON U.S. ECONOMY

SECTOR	IMPACT IN 1982-1983	LONGER TERM IMPACT
AGRICULTURE ^{1/}	1 - Loss of \$7 billion in export sales. 2 - Loss of over 100,000 jobs (and associated increased costs and revenue loss in federal budget). 3 - Increase in U.S. agricultural budget outlays by \$6-8 billion. 4 - Higher costs for ammonia fertilizer, lower for phosphates. 5 - Depressed commodity price levels (to or below loan levels).	1 - Spread of long term trade arrangements. 2 - Foreign buyers will diversify away from U.S. sources due to loss of credibility of U.S. as supplier.
MANUFACTURES	1 - Loss of \$3 billion in export sales and 60,000 jobs (and associated increased costs and revenue loss in federal budget). 2 - May well cause International Harvester to go bankrupt. 3 - Caterpillar would lose \$200 million in sales and 1,000 jobs. 4 - Occidental would lose 1,600 jobs in phosphate industry and write off of possibly \$60 million. 5 - Cut off of imports of mineral would cause increased costs to consuming industries (e.g. auto, specialty steel) seeking alternative supplies. 6 - Positive impact on U.S. ammonia industry. 7 - Loss to Export-Import Bank of \$180 million (Occidental deal).	1 - Loss of substantial potential business (e.g. pipelayers). 2 - Loss of reliability of U.S. as supplier would discourage other purchasers. 3 - Loss of \$400 million/year for remaining 15 years of Occidental market.
SERVICES	1 - Loss of \$50-80 million in revenues to shippers. 2 - Potential adverse effect of U.S. banks holding credits to Soviets.	

^{1/} Assumes embargo would apply to Eastern Europe and USSR and no new government programs to aid farmers (which could add several billion dollars in budget outlays).

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SOVIET/EASTERN BLOC EMBARGO - ISSUES AND IMPACTS

Summary

The potential gains to be derived from a trade embargo with the Soviet Union and the Eastern Bloc countries appear small relative to the costs the United States would suffer. Such efforts in the past have not influenced Soviet foreign policy, but have hurt our agricultural trade, disrupted commodity markets, depressed commodity prices, and cost the Treasury large sums. A trade embargo with the Soviet/Bloc countries should not even be considered without first imposing a full embargo on credit from the West.

While in years of poor harvests the Soviets account for a large share of the world's wheat and coarse grain imports (nearly a fifth in 1981/82), their overall imports (nonagricultural and agricultural) make up only 3.3 percent of their GNP. Because half the Soviet's overall imports come from the Eastern European countries, any trade embargo action taken by the United States and its allies would have to also include Eastern Europe to prevent transshipment. Such an action would depress prices for farm commodities in this country because over 70 percent of our exports to the Soviet Union and Eastern Europe are agricultural products.

Our agricultural export sales to the USSR and Eastern Europe are projected to total about \$4.8 billion in 1981/82. If the action were imposed immediately and across the board, agricultural export earnings would fall by over \$2 billion in fiscal 1982, further aggravating the U.S. trade deficit and the position of the dollar internationally. We estimate it would cost the federal government \$2-3 billion for 1981/82 to absorb the commodities that would otherwise have been exported. The reduction in exports would also mean the loss of over 100,000 jobs throughout the economy. In addition to making commodity loans to farmers, we would have to subsidize their storage and interest costs. Thus, the export-based underpinning of American farm income would be seriously weakened by an embargo. To compensate, it would cost the U.S. government more in price support and related outlays than the value of the exports lost due to the embargo. The whole structure of farm prices—including agricultural commodities not now exported to the Soviet Union and the Eastern Bloc—would shift downward.

The impact of continuing an embargo into 1982/83 is even more damaging to agriculture and related industries. We project agricultural exports would decline by over \$5 billion in 1982/83. Commodity prices would fall at or below loan levels, increasing deficiency payments for grains and raising loan and reserve outlays sharply. Budget outlays for grains alone in 1982/83 would total \$4-5 billion above levels expected in the absence of an embargo.

To limit taxpayer sacrifices in continuing to absorb the surpluses, the U.S. government would be forced into massive and costly acreage reduction programs. These programs would disrupt markets and impact on nearly all sectors of the U.S. economy: employment in industries supplying farm inputs would fall; rural communities would suffer as the volume of U.S. farm output declined; and gross farm income would fall. The longer the embargo were to continue, the more severe would become the dislocations.

U.S. agriculture's ability to produce would also be impaired by a total trade embargo. The Soviet Union and Eastern Europe account for 30 percent of

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the world's nitrogen fertilizer production capacity. In 1980/81, the Soviet Union alone supplied the United States with half of its imported ammonia.

Coverage

If an embargo of only agricultural products were imposed, the Agriculture and Food Act of 1981 would require that the Secretary take steps to assure farmers of 100 percent of parity. It is important to note that in addition to grains, the U.S. also exports oilseeds, tallow, sugar, cattle hides, meats, animals, tobacco, etc. to the USSR and Bloc countries. Hence, there would be tremendous economic disruptions.

Implementation

In order to minimize disruptions to farm commodity markets, we recommend that exporters be allowed to deliver on contracts already written for shipment in 1981/82. Thus, about half of the grain and other agricultural products projected to be exported to the USSR and EE would still move. This would still imply about a 10-15 percent reduction in total U.S. grain exports for 1981/82.

Impacts on Agriculture and the Budget

With farm prices and incomes already depressed, an embargo would have a devastating effect in agriculture and related industries. The reduction in exports would mean the loss of over 100,000 jobs throughout the economy. The embargo would eliminate any opportunity for price strengthening in 1981/82 and would lead to a tremendous increase in loan and inventory outlays as well as a significant buildup in reserves. Unless offsetting actions were taken, corn prices would drop and average for the season near loan rate levels, about 10-15 cents per bushel below earlier expectations. Wheat prices would also be pushed near loan rate levels, about 50 to 60 cents per bushel below earlier projections. This would result in large additional movements of grain under government loan and into the farmer-owned reserve with additional budget outlays around \$2 billion for these commodities alone.

A continuation of the embargo into 1982/83 would mean a reduction of nearly 25 percent in grain exports, with farm prices for grain averaging at or below the reserve loan rates. Soybean exports and prices would be similarly affected. Movement of this volume of grain into loan and reserve programs would result in twice as much grain in the reserve than earlier expected and budget outlays of about \$4 to \$5 billion. These increased outlays do not include the costs of any additional offsetting actions, such as contract purchases, direct grain purchases, paid land diversion programs, or higher support rates designed to minimize impacts on the sector as a whole.

Effectiveness of an Embargo

It is very difficult to get exporters to cooperate in a trade embargo. It would be particularly difficult in this case because of the linkage between Western Europe and the Eastern Bloc countries. West Germany is a major supplier, particularly of credit, to the Bloc. Moreover, our experience in managing embargoes has not been good. Mechanisms do not exist for making such actions effective. Reports by GAO and USDA's Inspector General conclude that the 1980 embargo with the USSR was virtually ineffective.

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Longer Term Impacts

The longer an embargo is allowed to stay in effect, the greater the problems that would emerge. Pressure for the government to take compensating actions on agricultural commodity prices would rise. Even then, any further actions to help farmers would have to be coordinated with the other supplying nations. The longer the embargo remains in effect, the more the exporters would be tempted to circumvent the embargo and thereby undermine the intent of the action. Irrespective of the duration of the embargo, the United States would find its foreign markets seriously eroded. Other suppliers and the Soviets would attempt to write bilateral agreements in order to tie up future trade to their advantage. Other importing countries, including our major trading partners, would also try to tie up and diversify the sources of their future requirements in formal agreements. Following the 1980 embargo, roughly 30 percent of the world's grain trade was estimated to be locked up by other exporting countries in the form of bilateral agreements, a sharp increase from the pre-embargo level.

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